

**WESTERN MASSACHUSETTS ELECTRIC COMPANY'S  
REPORT**

**TO THE DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY ON  
TRANSITION COST MITIGATION EFFORTS**

**I. INTRODUCTION.**

Pursuant to the Department of Telecommunications and Energy's ("Department") December 4, 2000 Order in D.T.E. 00-66, 00-67 and 00-70, Western Massachusetts Electric Company ("WMECO" or the "Company") presents the following as its report of mitigation efforts that have been undertaken since March 1, 1998 and those that are planned for calendar-year 2001. The headings used by the Company below correspond to the areas the Department requested companies address in their reports. Order, pp. 15-16.

**II. DIVESTITURE OF NON-NUCLEAR GENERATING FACILITIES.**

On March 3, 1999, in D.T.E. 99-29, WMECO submitted to the Department its first request to sell generation assets to mitigate transition costs. WMECO's Petition for Approval of Asset Divestiture asked for the approval for the sale of 290 MW of non-nuclear generating assets ("Generating Assets") to Consolidated Edison Energy Massachusetts, Inc. The following generation facilities were included: West Springfield Station, a 209 MW fossil-fueled facility located in West Springfield and Agawam, Massachusetts; three internal combustion units (jets) located at WMECO's West Springfield Station (22.0 MW), and at the Doreen Street (21.1 MW), and Woodland Road (20.4 MW) substations, respectively; the Gardner's Falls Project, a 3.7 MW hydroelectric project located on the Deerfield River in Shelburne and Buckland, Massachusetts; and the Chicopee River hydroelectric system, consisting of the Red Bridge (4.5 MW), Putts Bridge (4.1 MW), Dwight (1.7 MW), and Indian Orchard (3.7 MW) hydroelectric facilities located on the Chicopee River in Hampden and Hampshire counties, Massachusetts. WMECO conducted the sale using a competitive auction approach. The Department approved the sale on June 28, 1999. The sale price realized was approximately 3.8 times the estimated book value of the Generating Assets as of December 31, 1998 (on an unadjusted basis). The net proceeds from this asset divestiture of \$22.4 million are being directly used to reduce transition costs paid by WMECO's customers.

On August 13, 1999, in D.T.E. 99-74, WMECO submitted its second request to divest its remaining non-nuclear assets. In its Petition for Approval of Generation Asset Divestiture WMECO requested that the Department approve the sale of 272.1 MW of WMECO's hydroelectric generating assets ("Hydro Assets") to Northeast Generation Company. The

sale included: WMECO's 19 percent interest in the Northfield Mountain Project, a 1,120 MW pumped storage facility located on the Connecticut River in the towns of Northfield, Erving, Montague and Gill, Massachusetts; WMECO's wholly owned Turners Falls No. 1 Station, a 6.3 MW hydroelectric facility located on the Connecticut River in Montague, Massachusetts; and Cabot Station, a 53 MW hydroelectric facility located on the Connecticut River in Montague, Massachusetts. The Hydro Assets were sold in a competitive, two-round public auction along with the 81 percent interest in the Northfield Mountain Project owned by The Connecticut Light and Power Company ("CL&P") and CL&P's other, unrelated non-nuclear generating assets. The Department approved the sale on February 1, 2000. The sale price realized was approximately 4.4 times the estimated book value of the Hydro Assets as of December 31, 1998 (on an unadjusted basis). Net proceeds from this asset divestiture are \$139.4 million and are being used to reduce transition costs that otherwise would be borne by WMECO's customers.

### **III. THE DIVESTITURE OF NUCLEAR GENERATING FACILITIES.**

On September 8, 2000, in D.T.E. 00-68, WMECO submitted to the Department its petition (filed jointly with New England Power Company and Fitchburg Gas and Electric Light Company) for approval to sell WMECO's interests in Millstone nuclear generating units 1, 2, and 3 to Dominion Nuclear Connecticut, Inc. WMECO owns 19 percent of units 1 and 2 and 12.24 percent of unit 3. The winning bidder was chosen after a thorough, comprehensive, competitive solicitation directed by the internationally-known Global Energy Investment Banking Group of J.P. Morgan Securities, Inc. The overall price obtained for the three Millstone units was approximately \$1.3 billion. In sworn testimony before the Department, the J.P.Morgan vice-president that oversaw the auction stated that "a \$500 million winning bid [would be] a minimum definition of high success. A \$700 million outcome was a home run. A \$1.3 billion result is like hitting a home run in the bottom of the ninth of Game 7 of the World Series" (D.T.E. 00-68, Tr. 1, p. 91). The Department approved the Millstone divestiture on December 22, 2000. It is projected that the Millstone sale will close on or about April 1, 2001, and the net proceeds to WMECO will be \$158 million. This level of net proceeds is far in excess of what was anticipated even immediately prior to the sale and will significantly reduce WMECO's transition costs, for the direct benefit of customers.

### **IV. THE RENEGOTIATION, BUYOUT, OR ADJUSTMENT TO CONTRACTUAL COMMITMENTS FOR PURCHASED POWER.**

As of March 1, 1998, WMECO had four purchased power contracts, each of which it has attempted to buyout or buydown for its customers' benefit.

(1) On May 21, 1999, in D.T.E. 99-56, WMECO submitted its Petition for Approval of a contract termination with Springfield Resource Recovery Limited Partnership and a restructured power purchase agreement with eco/Springfield, LLC. The Springfield Resource Recovery Facility ("SRRF") is a relatively-small trash-burning facility in Springfield, Massachusetts. The Department approved the buydown on June 28, 1999. Under the restructured agreement, the cost of power to WMECO from SRRF is one-half the prior level. Energy savings from the buydown are being used to reduce WMECO's transition costs. These savings have been calculated on a net present value basis and are included as part of the total securitization savings set forth below.

(2) On November 15, 1999, in D.T.E. 99-101, WMECO submitted its Petition of Approval of the termination of the MASSPOWER Agreement. MASSPOWER is a independent power producer in Springfield, Massachusetts. The original power purchase agreement obligated WMECO to purchase approximately 54 MW from MASSPOWER. On October 5, 2000, the Company and the Attorney General agreed to settle the MASSPOWER proceeding and a Settlement was provided to the Department. The Department approved the Agreement on October 30, 2000. The Settlement allows WMECO to terminate its power purchase arrangement with MASSPOWER and states that WMECO may recover the buyout payment and associated transaction costs as actual and fully mitigated transaction costs in WMECO's transition charge, and that the buyout payment would be eligible to be included by WMECO in any securitization application. The Department found that the termination of the Company's PPA with MASSPOWER is likely to achieve savings for WMECO's customers. In addition, pursuant to the Settlement, any tax benefits that result from the timing of the buyout payment would be credited to WMECO's customers. Savings from this buyout are included on a net present value basis and are included as part of the total securitization savings set forth below.

(3) On January 29, 2000, in D.T.E. 00-11, WMECO filed an application for approval of the termination of its Vermont Yankee Nuclear Power Corporation contract. The Vermont Yankee transaction consists of the sale of the Vermont Yankee nuclear power plant to AmerGen and WMECO's buyout of this power purchase contract. Subsequently, the sale of the unit was reopened to other bidders. Entergy Nuclear, Inc. has indicated that it is willing to pay \$50 million for the plant, which is apparently a larger amount than the sale contemplated in WMECO's earlier petition for sale approval. Other bids may be received. WMECO owns 2.5 percent of Vermont Yankee, an approximately 510 MW nuclear unit. Termination of the ownership of the Vermont Yankee nuclear power plant will remove operating risk for WMECO. This proceeding is pending before the Department and should be resolved in 2001.

(4) On November 2, 2000, in D.T.E. 00-97, WMECO filed a petition for Approval of Capacity and Associated Energy Resale and Agency Agreement with Constellation Power Source, Inc. as a result of a public auction designed to attain a market value for the assets. Under the Agreement, WMECO's 3.83 percent interest in the power under the Firm Energy Contract between Hydro-Quebec and New England Utilities will be transferred to Constellation Power Source, Inc. The value received for the Firm Energy

Contract will be applied to offset transition costs. This proceeding is pending before the Department and should be resolved in 2001.

**V. THE SALE OF ASSETS UNRELATED TO THE PROVISION OF TRANSMISSION OR DISTRIBUTION SERVICES.**

None to date.

**VI. OTHER STEPS THAT HAVE ALREADY BEEN TAKEN TO MITIGATE THE LEVEL OF TRANSITION COSTS.**

In WMECO's Restructuring Order (D.T.E. 97-120 (September 17, 1999)), the Department approved a nuclear performance-based ratemaking ("PBR") plan which sets the nuclear going-forward recoverable costs at an average peer group level and includes a capacity factor benchmark at the industry 2nd performance quartile. For the year 2000, it is estimated that transition costs will be mitigated by \$13.1 million as a result of the PBR plan.

In addition, WMECO experienced a large increase in the cost of its Standard Offer Service supply for 2001. In setting its rates for 2001, WMECO lowered the transition charge that customers have to pay as a means of mitigating the overall effect of having to charge customers the entire impact of the Standard Offer Service Fuel Adjustment.

**VII. DESCRIBE ADDITIONAL STEPS THAT MAY BE REASONABLY TAKEN IN ORDER TO FURTHER MITIGATE COSTS, INCLUDING, BUT NOT LIMITED TO, SECURITIZATION OF TRANSITION COSTS AND ANY NECESSARY CHANGES TO RECOVERY SCHEDULES FOR TRANSITION COSTS.**

A significant additional step taken by WMECO to mitigate costs, as allowed under G.L. c. 164, §§ 1G and 1H, is its request to securitize (or refinance) transition costs by issuing Rate Reduction Bonds ("RRB"). On April 18, 2000, in D.T.E. 00-40, WMECO submitted this request to the Department through WMECO's Petition of the Issuance of Electric Rate Reduction Bonds. The effect of the RRB issuance is to retire higher cost debt and equity in favor of lower-cost, Triple- A rated bonds. The RRB issuance will result in significant savings, currently projected to be approximately \$32 million. All of the savings from securitization inure to WMECO's customers. The securitization proceeding

involves two elements, the amount to be securitized and an order including language needed to allow the RRBs to be issued (a 'Financing Order'). On December 22, 2000 the Attorney General and WMECO submitted to the Department a settlement as to the level of RRBs that may be issued by WMECO (\$155 million). On January 12, 2001, WMECO filed with the Department a Financing Order and transaction costs that were approved by the two Massachusetts state agencies overseeing the financial aspect of the RRB issuance (Massachusetts Development Finance Agency and Massachusetts Health and Educational Finance Authority). The matter is now awaiting decision by the Department. Should the Department approve the securitization level and the Financing Order, savings will immediately begin to inure to the benefit of WMECO's customers.

## **VIII. USE OF THE RATEPAYER PARITY TRUST FUND TO MITIGATE THE EFFECTS OF THE RATE INCREASE.**

The Legislature, in enacting electric utility restructuring in Massachusetts (Chapter 164 of the Acts of 1997) (the "Act") anticipated the possibility that high prices for electricity might be a problem for a period of time and that a further mitigation measure under the control of the Commonwealth, rather than the restructured utilities, might prove to be necessary. Accordingly, the Legislature included the Ratepayer Parity Trust Fund ("RPTF") as an integral part of the Act (Stat. 1997, § 7, codified at G.L. c. 10, § 62). The RPTF is funded only with revenues directly attributable to restructuring -- primarily, those tax revenues that have been collected from the sale of utility generating units and investment income on the these revenues.

It is a matter of public record that electric company customers have experienced extraordinary and painful rate increases in the last months. These increases have been due to market forces beyond electric companies' and customers' control and have occurred despite electric companies taking all possible mitigation measures. Given these electricity increases, if there was ever a time for the Commonwealth to investigate the use of the RPTF to provide some measure of relief for customers, it is now. While WMECO does not know the level of funds in the RPTF, any further assistance that could be provided to customers would be welcome.

WMECO recognizes that the language in the Act does not allow the Department to make an immediate distribution of RPTF moneys. For example, the Department must request a distribution from the Secretary of Administration and Finance and the Legislature must appropriate the funds (G.L. c. 10, § 62). In addition, the Department must apparently promulgate regulations prior to any monetary distribution (G.L. c. 164, § 1G(c)(4)). Nonetheless, WMECO believes that the Department should expeditiously investigate the possibility of using the RPTF to determine if it could aid customers in the relatively-near future.

## **IX. CONCLUSION**

As indicated by the discussion above, WMECO has taken all available steps to mitigate transition costs to customers. It has sold its generating facilities, pursuant to competitive auctions, it has attempted to buydown or buyout each of its power purchase agreements, and it has instituted a nuclear performance-based ratemaking plan until the sale of these units is complete. Significantly, WMECO has also diligently pursued securitization and is awaiting approval by the Department so that additional savings can be provided to customers. WMECO will continue to pursue additional mitigation opportunities should they become available.